Financial Statements
Year Ended December 31, 2007



Financial Statements

Year Ended December 31, 2007

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# **Board of Trustees**

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99 Monroe Avenue N.W., Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

# **Independent Auditors' Report**

Board of Trustees Kent District Library Comstock Park, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent District Library as of and for the year ended December 31, 2007, which collectively comprise Kent District Library's financial statements as listed in the table of contents. These financial statements are the responsibility of the Kent District Library management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kent District Library's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Kent District Library as of December 31, 2007, and the changes in financial position and budgetary comparisons for the major governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grand Rapids, Michigan

BDO Seidman, LLP

July 8, 2008

# **Management's Discussion and Analysis**

This Management's Discussion and Analysis provides an overview of the Kent District Library's (Library) financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the basic financial statements, which follow this discussion.

# **Financial Highlights**

- The Library's assets exceeded liabilities at the close of the fiscal year 2007 by \$10 million (reported as *net assets*).
- The Fund Balance of the Library's General Fund increased by \$16,489 and the Capital Fund by \$1,842 for a combined increase of \$18,331. This brings the total Government Fund Balance to \$3,170,356 or 20% of current year expenditures, achieving the Kent District Library Board's target for Fund Balance of 15% to 20% of expenditures.
- The Library continued its implementation of Express Check using RFID technology (Radio Frequency Identification) at the Comstock Park, Englehardt, Gaines Township and Sand Lake Branches. Express Check reduces waiting lines by allowing customers to check out their own items, leaving staff free for customer service. The 2007 expenditure for RFID was \$334,402.
- In 2007 the Library implemented a print management system at all of its branches. This allows patrons to print from a public computer to a printer/copier with B/W and Color capability. The system utilizes a reusable payment card that the patron can replenish as needed. This increases the Library's operational efficiency and is more convenient for the patron as they no longer need to come to the service desk every time they need to print from a public computer. The 2007 cost for the print management system was \$39,800.
- The Library's expansion into the vacant suite at its Service Center building was completed in 2007. The Service Center serves the branches by purchasing, processing and cataloging collection materials, performing the administrative role in the areas of Library leadership, Human Resources, Business, Marketing and Information Technology. The new space houses the Human Resources and Information Technology departments and a large storage area. Moving these departments allowed the Delivery area to double in size. Delivery has increased 33% since 2003. The cost of the expansion in 2007 was \$374,194.

#### Overview of the Financial Statements

#### **Statement of Net Assets and Statement of Activities**

The Statement of Net Assets and the Statement of Activities indicate how the Kent District Library performed financially during 2007. These government-wide statements include all

assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector companies. All of the reporting year's revenues and expenses are accounted for regardless of when cash was received or paid.

These two statements report the Library's net assets and the changes in those assets. The change in net assets is important because it indicates whether the financial position of the Library has improved or diminished. Changes can result from many factors, some financial, some not. Non-financial factors may include a decision to expand Library services or utilize new technology. Financial factors may include a change in the Library's property tax, a change in state aid or other factors.

#### **Government Funds**

The Kent District Library's governmental activities are presented in the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances. The purpose of the fund statements is to provide information on the general operations and services of the Library. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance programs.

The reconciliation of the Governmental Funds to the Statement of Net Assets and the Statement of Activities can be found on pages 18 and 20 of the Financial Statements, and are called Reconciliation of Fund Balances of Government Funds to Net Assets on the Statement of Net Assets and Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

#### **Fiduciary Fund**

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. These funds use the accrual basis of accounting. This fund is not included with the other financial statements because the Library cannot use these assets to finance operations. The Library is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

# The Kent District Library as a Whole

Net assets are an indicator of a government's financial position. As of December 31, 2007 the Library's assets exceeded its liabilities by \$10,055,681. The bulk of the Library's net assets, 70.8% reflect its investment in capital assets (e.g. land, building, building improvements, collection, equipment and furniture). These assets are used to provide services to customers and staff and are not available for future spending. The remaining 29.2% is unrestricted and can be used to finance day-to-day operations.

# Kent District Library Net Assets

	_	2006	_	2007
Current and other assets Capital assets	\$	17,118,122 6,903,233	\$	18,080,490 7,935,832
Total Assets	_	24,021,355		26,016,322
Current liabilities		14,140,194		15,145,620
Long-term obligations	_	767,355	_	815,021
Total Liabilities		14,907,549		15,960,641
Net assets:				
Invested in capital assets, net of unrelated debt		6,168,094		7,116,874
Unrestricted		2,945,712		2,938,807
Total Net Assets	\$	9,113,806	\$	10,055,681

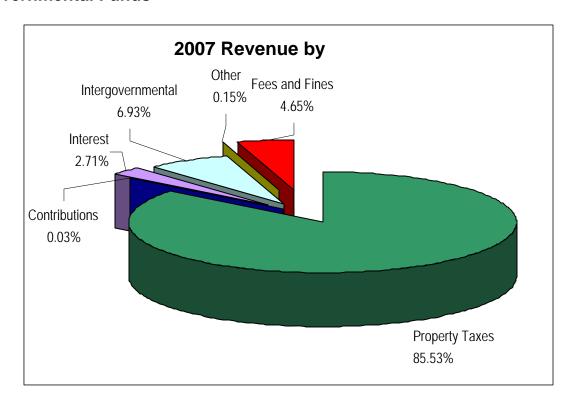
# **Changes in Net Assets**

Kent District Library governmental activities, as detailed in the Statement of Activities, produced revenues of \$15,732,161 and expenses of \$14,790,286, providing a change in net assets of \$941,875.

## Kent District Library Changes in Net Assets

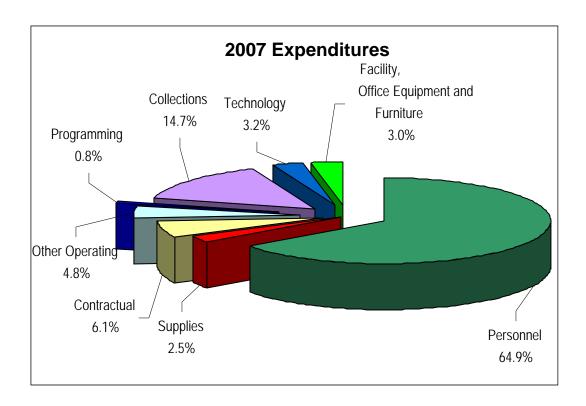
	_	2006	_	2007
Revenues				
Property taxes	\$	12,604,250	\$	13,455,843
Intergovernmental	Ψ	1,098,289	Ψ	1,090,432
Fees and fines		844,302		731,372
Interest		361,658		426,949
Contributions		2,505		4,544
Other		90,480		23,021
<b>Total Revenues</b>		15,001,484		15,732,161
Expenses				
Personnel		9,529,276		10,223,296
Supplies		325,762		387,183
Contractual		790,804		960,394
Other operating		765,044		757,703
Programming		93,133		125,187
Collections		1,607,190		1,626,933
Technology		352,520		394,977
Facility, office equipment and furniture		220,775		314,613
Total Expenses	_	13,684,504		14,790,286
Change in Net Assets		1,316,980		941,875
Net Assets, beginning of year		7,796,826		9,113,806
Net Assets, end of year	\$	9,113,806	\$	10,055,681

#### **Governmental Funds**



The Library generated \$15,732,161 in revenues for the fiscal year ended December 31, 2007. Of that, 85.53% were from property taxes. The property taxes recognized as revenue in 2007, were levied on December 1, 2006 and due on February 28, 2007. 2007 was the forth year of a 10-year millage, covering the years 2004 to 2013. The authorized millage was 0.88 mills, but the actual revenue received from property taxes was lower for several reasons, such as tax relief provided to various development authorities and appeals of property assessments to the tax tribunal. The full 0.88 mills were levied and were not reduced by the Headlee amendment. Reductions due to DDA's (Downtown Development Authority), LDFA's (Local Development Finance Authority) and Brownfield Redevelopment Authority amounted to \$163,148. The reduction resulting from tax tribunal reviews was \$24,934, bringing the property tax collection amount to \$13,455,843.

Other significant funding sources are Intergovernmental and Fees and Fines. Intergovernmental generates 6.93% of revenues and is comprised of State Aid, Penal Fines and State Shared Revenue. Fees and fines produced revenues of 4.65%. The major component of this revenue stream is Overdue Fines. The Library was able to capitalize on interest rate increases and the revenues of this category increased by \$65,291.



Expenditures incurred to provide services to the district were \$15,713,830. The largest expenditure category was personnel at \$10,198,060 (64.9%). The Kent District Library has 269 full and part-time staff. Of that, 211 staff members (78.5%) work with the public at the 18 branches located throughout the district and 38 staff members (14.1%) directly support the branches from the Service Center, providing processing and cataloging of collection materials, library programs, printing and computer services. The Administration, Business Office, Communications and Human Resources departments are comprised of the remaining 20 staff members (7.4%).

Other expenditure categories of note include Collections at \$2,304,351 (14.7%) for the books, magazines, videos, DVDs, recordings and electronic databases purchased for public use. Another is Contractual (6.1%). Some important components of Contractual are the Integrated Library System (electronic catalog shared with the Lakeland Cooperative), OCLC Authority Control (used in the cataloging materials), Branch Maintenance fees (paid to municipalities based on square footage of library), Insurance, and various service contracts (delivery within Lakeland Cooperative, payroll fees, collection fees and computer maintenance agreements). Technology expenditures (3.2%) include the deployment of Express Check to an additional four branches and the print management implementation at all branches. Concluding with Other Operating (4.8%), the largest contributors to this expenditure are Training, Telecommunications and Advertising (services and programs).

# Financial Analysis of the Kent District Library's Funds

The Kent District Library's fund balance increased at year-end by \$18,331, bringing the total Government Fund Balance to \$3,170,356. Of this amount, \$75,221 represents prepaid expenditures and the Board has designated \$100,862 for capital expenditures. This leaves an undesignated balance of \$2,994,273 or 18.5% of current expenditures. This provides for 67 days of operation.

# Reporting Kent District Library's Fiduciary Responsibilities

The Kent District Library Employees' Retirement Plan was established by the Board of Trustees and is administered by the Plan Pension Board.

This report includes the activities of the plan in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets because the library cannot use these assets to fund its operations (pages 21 and 22).

The library is responsible for ensuring these assets are used for their intended purpose.

# **General Fund Budgetary Highlights**

The General Fund's original budget was amended. The original budget with revenues of \$15,382,404 and expenditures of \$15,415,864 provided expenditures over revenues of \$33,460. The final budget shows revenues of \$15,654,276 and expenditures of \$15,634,276, with excess of revenues over expenditures of \$20,000.

Actual results provided an excess of revenues over expenditures of \$384,912. \$368,423 was transferred to the Capital Fund. Significant variances between the final budget and actual expenditures are listed below:

- Interest A positive variance of \$38,465. The Library benefited from increasing interest rates.
- Overdue Fines and Fees A positive variance of \$28,537. The Library realized additional revenue from fines and fees due to the implementation of the eCommerce module, allowing patrons to pay online.
- Personnel A reduction in expenditures of \$62,549. Several positions remained unfilled for periods of time during the year, notably Development Coordinator and Circulation Assistants.
- Collections A reduction in expenditures of \$54,098. Materials ordered in 2007 were not received by December 31, 2007.

• Technology - A reduction in expenditures of \$100,383. Items ordered with shipment promises for December were not received by year end.

# **Capital Fund Budgetary Highlights**

The Capital Fund's original budget was amended. The original budget indicated a funding source of \$368,423 and expenditures of \$339,873 with an ending fund balance of \$127,570. The final budget shows a funding source of \$368,423, revenues of \$7,900 with expenditures of \$374,194 and an ending fund balance of \$101,149.

The final phase of the Service Center renovation was completed in 2007 at a cost of \$374,194. The variances between the final budget and actual expenditures were not significant.

# **Capital Assets**

As of December 31, 2007, the Kent District Library had \$7,935,832 invested in Capital Assets, including land, building, furniture and equipment, and collections. This represents additions to the capital assets of \$2,914,593 before deletions of \$992,230 and net depreciation expense of \$1,673,898. The following schedule indicates the capital asset balances net of depreciation for the year.

Land	\$ 440,000
Building and building improvements	1,953,240
Furniture and equipment	1,631,709
Collections	3,910,883
Total	\$ 7,935,832

Additional information on capital assets can be found in Note 6.

# **Long-Term Obligations**

At the end of the year, December 31, 2007, the Kent District Library had obligations for Capital Leases and Compensated Absences of \$1,050,507, of which \$235,486 is due within one year. A large portion of the Capital Lease expense is due to the Library's Express Check initiative. Due to rapid changes in technology, the Library deemed it prudent to lease the Express Check equipment rather than purchase it. A summary of the Kent District Library's outstanding long-term obligations for the year ended December 31, 2007 is presented below:

Capital leases	\$ 818,958
Compensated absences	 231,549
Total	\$ 1,050,507

Additional information on long-term obligations can be found in Note 8.

# The Kent District Library's Future

The Kent District Library is planning to implement POS (Point of Sale) cash registers in the branches. The POS system will promote efficiency by interfacing with the Library's ILS (Integrated Library System). Currently payment is a two step process: money is rung into the cash register, then the patron's account is updated by accessing the ILS system. This would eliminate one step. Another benefit is the system's reporting capability. The cost to implement the POS system is \$30,885.

Training is an important component to the Library's success, both for staff and the public. There are plans to renovate the training room in 2008. The room will be adapted so more people can participate. The renovation will include new workstations, desks and an audio visual system. The renovation is estimated to cost \$50,000.

The Library's computer servers that provide internet and software access to 19 locations are aging. To make system administration more efficient and reduce future hardware costs, the library is planning on replacing the aging servers with virtual servers. The cost to replace the servers with this new technology is \$200,000.

## **Contact for Additional Information**

If you have questions about this report or need additional information, contact the Finance Director at the Kent District Library, 814 West River Center N.E., Comstock Park, Michigan 49321, 616-784-2007.

# **Government-Wide Financial Statements**

# Government-Wide Financial Statements Statement of Net Assets

December 31, 2007	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents (Note 4)	\$ 1,342,624
Investments (Note 4)	3,742,059
Receivables:	
Property taxes	12,920,586
Prepaid expenses	75,221
Total current assets	18,080,490
Noncurrent Assets	
Capital assets (Note 6):	
Non-depreciable	440,000
Depreciable, net of accumulated depreciation	7,495,832
Total Assets	26,016,322
Liabilities	
Current Liabilities	
Accounts payable	323,314
Accrued wages	205,165
Deferred revenue	14,263,395
Local funds	118,260
Current portion of long-term obligations (Note 8)	235,486
Total current liabilities	15,145,620
Noncurrent Liabilities	
Noncurrent portion of long-term obligations (Note 8)	815,021
Total Liabilities	15,960,641
N4 A4-	
Net Assets Invested in capital assets, not of related dabt	7 116 074
Invested in capital assets, net of related debt Unrestricted	7,116,874 2,938,807
Onestreted	2,930,007
Total Net Assets	\$ 10,055,681

# **Government-Wide Financial Statements Statement of Activities**

				Progra	am	Revenues	Net (Expense) Revenue and Changes in Net Assets
						Operating	
V I. I. D		F	(	Charges for		Grants and Contributions	T-4-1
Year ended December 31, 2007		Expenses		Services		ontributions	Total
Functions/Programs							
Governmental Activities							
Operations:							
Personnel	\$	10,223,296	\$	-	\$	_	\$ (10,223,296)
Supplies		387,183		-		-	(387,183)
Contractual		960,394		-		-	(960,394)
Other operating		757,703		-		-	(757,703)
Programming		125,187		-		-	(125,187)
Collections		1,626,933		644,366		-	(982,567)
Technology		394,977		_		91,550	(303,427)
Facility, office equipment and furniture		314,613		-		-	(314,613)
Total Library	\$	14,790,286	\$	644,366	\$	91,550	(14,054,370)
General reven	was:						
Property tax							13,455,843
Intergovern							1,090,432
Interest reve							426,949
Other	cirac						23,021
							20,021
Total general	revenues						14,996,245
Change in net	assets						941,875
Net Assets, be	eginning of	f year					9,113,806
Net Assets, en	nd of year						\$ 10,055,681

# Fund Financial Statements

			Total
	General	Capital	Governmental
December 31, 2007	Fund	Fund	Funds
Assets			
Cash and cash equivalents (Note 4)	\$ 1,241,762	\$ 100,862	\$ 1,342,624
Investments (Note 4)	3,742,059	-	3,742,059
Receivables:			
Property taxes	12,920,586	-	12,920,586
Prepaid expenditures	75,221	-	75,221

**Total Assets** \$ 17,979,628 \$ 100,862 \$ 18,080,490

# **Governmental Funds Balance Sheet**

December 31, 2007	General Fund	Capital Fund	Total Governmental Funds
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 323,314	\$ -	\$ 323,314
Accrued wages	205,165	-	205,165
Deferred revenue	14,263,395	-	14,263,395
Local funds	118,260	-	118,260
Total liabilities	14,910,134		14,910,134
Fund Balances			
Reserved for:			
Prepaid expenditures	75,221	-	75,221
Unreserved:			
Board designated	-	100,862	100,862
Unreserved reported in:			
General fund	2,994,273	_	2,994,273
Total fund balances	3,069,494	100,862	3,170,356
<b>Total Liabilities and Fund Balances</b>	\$ 17,979,628	\$ 100,862	\$ 18,080,490

# Reconciliation of Fund Balances of Governmental Funds to Net Assets on the Statement of Net Assets

December 31, 2007		
Total fund balances - total governmental funds (from page 17)		\$ 3,170,356
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:  Non-depreciable capital assets  Depreciable capital assets  Accumulated depreciation  Net capital assets	\$ 440,000 18,203,289 (10,707,457)	7,935,832
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Balances are as follows:  Compensated absences Capital leases Total long-term liabilities	(231,549) (818,958)	(1,050,507)
Net Assets of Governmental Activities	Ī	\$ 10,055,681

# Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended December 31, 2007	General Fund	Capital Fund	Total Governmental Funds
Revenues			
Property taxes	\$13,455,843	-	\$ 13,455,843
Intergovernmental	1,090,432	-	1,090,432
Fees and fines	731,372	_	731,372
Interest revenue	419,336	7,613	426,949
Contributions	4,544	-	4,544
Other	23,021	-	23,021
Total Revenues	15,724,548	7,613	15,732,161
Expenditures			
Operations:			
Personnel	10,198,060	_	10,198,060
Supplies	387,183	_	387,183
Contractual	960,394	_	960,394
Other operating	757,703	_	757,703
Programming	125,187	-	125,187
Collections	2,304,351	=	2,304,351
Technology	291,200	=	291,200
Facility, office equipment and furniture	99,233	374,194	473,427
Debt retirement:			
Principal Principal	216,325	-	216,325
Total Expenditures	15,339,636	374,194	15,713,830
Excess (deficiency) of revenues over expenditures	384,912	(366,581)	18,331
Other Financing Sources (Uses)			
Interfund transfers from other fund (Note 5)	-	368,423	368,423
Interfund transfers to other fund (Note 5)	(368,423)	-	(368,423)
<b>Total Other Financing Sources (Uses)</b>	(368,423)	368,423	
Change in fund balances	16,489	1,842	18,331
Fund Balances, beginning of year	3,053,005	99,020	3,152,025
Fund Balances, end of year	\$ 3,069,494	\$ 100,862	\$ 3,170,356

# Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended December 31, 2007		
Change in fund balances - total governmental funds (from page 19)		\$ 18,331
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.  Capital outlay  Depreciation expense  Net effect of capital outlays	\$ 2,914,593 (1,673,898)	1,240,695
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of contract principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Issuance of capital contracts Repayments of principal contracts Net effect of debt issuance and repayment	(300,144) 216,325	(83,819)
Governmental funds do not report loss on disposal of capital assets while on the statement of activities the loss on disposal of the assets is reported as a gain or loss in its related function.  Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Change in balance is as follows:		(208,096)
Compensated absences	,	(25,236)
Change in Net Assets of Governmental Activities	,	\$ 941,875

# **Statement of Fiduciary Net Assets**

December 31, 2007	Pension Trust Fund
Assets	
Receivables	
Employer contribution	\$ 49,017
Plan members' contributions	20,810
Interest and dividends	86,900
Due from brokers	1,047
Total receivables	157,774
Investments, at fair value (Note 4)	
Common stock	2,168,422
Real estate investment trusts	92,599
United States treasury bills, notes and bonds	2,474,148
Corporate bonds, debentures and notes	2,095,909
Foreign obligations	110,309
Foreign equity mutual funds	3,161,640
Domestic equity mutual funds	16,449,809
Money market mutual funds	1,803,889
Government agency obligations	219,688
Total investments	28,576,413
Total Assets	\$ 28,734,187
Net Assets Held in Trust for Pension Benefits	\$ 28,734,187

# **Statement of Changes in Fiduciary Net Assets**

Year ended December 31, 2007	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 857,038
Plan members	340,598
Total contributions	1,197,636
Investment income:	
Net appreciation in fair value of investments	596,527
Interest	285,880
Dividends	692,716
	1,575,123
Less investment expense	66,870
Net investment income	1,508,253
Total Additions	2,705,889
Deductions	
Benefits	293,017
Refunds of contributions	22,291
Administrative expense	29,653
Total Deductions	344,961
Net Increase	2,360,928
Net Assets Held in Trust for Pension Benefits (a schedule of funding	
progress is presented in Note 10), beginning of year	26,373,259
Net Assets Held in Trust for Pension Benefits, end of year	\$ 28,734,187

## **Notes to Financial Statements**

# 1. Description of the Kent District Library

Effective July 1, 1994, the Kent District Library (Library) was established pursuant to Act No. 24 of the Public Acts of 1989. Its purpose is to provide Library services to the residents of the district. The Library may also enter into contracts to provide Library services to municipalities outside the district.

The Library is governed by a Board consisting of eight members who are appointed by the Kent County Board of Commissioners according to geographic regions. The Board has the authority to levy taxes and determine its budget, the power to designate management and accountability for the Library's fiscal matters. The financial statements of the Library contain all funds for which the Library is financially accountable. The Library's primary source of revenue is property taxes. The voters within the Library's service area have approved a levy of .88 mills for operating purposes. This millage is approved through 2013.

# 2. Summary of Significant Accounting Policies

### Basis of Presentation

Government-wide financial statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. The government-wide financial statements categorize activities as either governmental or business-type. All of the Library's activities are classified as governmental.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes and certain other items are reported as general revenues.

Fund financial statements: The fund financial statements provide information about the Library's funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide

## **Notes to Financial Statements**

financial statements. Individual governmental funds are reported in separate columns in the fund financial statements.

When both restricted and unrestricted resources are available, it is the Library's policy to use restricted resources first.

Governmental Funds

The Library reports the following governmental funds:

General Fund is the general operating fund of the Library. It is used to account for all financial resources except those that are being accounted for in another fund.

Capital Project Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities and or facility improvements.

The Library reports the following fund:

Fiduciary Fund represents the Kent District Library Employees' Retirement Plan used to account for assets in the Library's name for the benefit of employees and retired employees. These funds are custodial in nature and do not involve measurement of results of operations.

#### Measurement Focus and Basis of Accounting

The Library uses the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. The Library considers revenues available if earned and collected within 60 days after the end of the current fiscal period. Property tax revenues are recognized as revenues in the fiscal year for which they were levied. Expenditures are generally recognized when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

However, for presentation of the year-end audited financial data, the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. These

## **Notes to Financial Statements**

statements are similar to statements used in the private sector by for-profit business enterprises and not-for-profit organizations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The government-wide financial statements follow applicable accounting and financial reporting standards of the Financial Accounting Standards Board issued through November 30, 1989, unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements. The Library has elected to apply only GASB pronouncements subsequent to November 30, 1989.

### **Budgets and Budgetary Accounting**

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to July 1, branch managers and department heads submit an expenditure budget report for the fiscal year commencing the following January 1.
- During July and August, the Director and Finance Director develop an operating budget based upon the proposed expenditures and projected revenues for submission to the Board in August.
- Board budget work sessions are held in August.
- Public hearings are conducted by the Board during the September Board meeting and the final budget is adopted in September.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- Budgeted amounts are as originally adopted or as amended by the Board of Trustees during the calendar year. Amendments were not material to the originally adopted budget.

## **Notes to Financial Statements**

### Cash, Investments and Accrued Interest

Cash deposits of the Library consist of checking accounts and a municipal investment fund maintained at a local bank. Other funds, except those of the retirement fund, are deposited in the Kent County Pooled Cash and Investment System (Money Max). Interest income earned in Money Max is included in the pooled funds. Only the Library's portion of this pool as reported by the County is reported on the balance sheet. Investments are reported at fair value.

## Capital Assets

Tangible assets having a useful life in excess of one year, with cost in excess of \$2,000, are capitalized. Capital assets are stated at acquisition cost or fair value at the date of acquisition. Donated assets are stated at their estimated market value as of the donation date. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Building	25
Building improvements	15
Furniture and equipment	5
Collections	5
Vehicles	5

#### **Property Taxes**

Property taxes are levied on December 1 at all local units at which time the taxes attach as an enforceable lien on the property. The taxes are due February 28 of each year. The Library's portion of the 2007 taxes are collected by the local units and remitted to the Library as it is received. The Library records its portion of the property taxes as deferred revenue in the General Fund when levied and recognizes the taxes as revenue in the ensuing year.

### **Notes to Financial Statements**

The Library's portion of the 2007 property tax levy, which was based on the rate of .88 mills, applied to a total taxable value of real and personal property located in the Library district of approximately \$16.111 billion, is subject to change due to review and tax tribunal decisions.

#### **Interfund Activity**

During the course of its operations, the Library has transactions between funds. To the extent that certain transactions had not been paid or received as of December 31, 2007, balances of interfund receivables or payables have been recorded.

### Risk Management and Benefits

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In order to minimize its exposure to these risks, the Library purchases commercial insurance coverage. Employee health insurance is also provided by private insurance carriers. There have been no settlements in excess of the Library's insurance coverage.

#### Compensated Absences

Library employees are granted vacation leave in varying amounts based on length of service. Employees may not accumulate over 200 hours of vacation leave in any one calendar year. The Library also allows employees to accumulate unused holiday leave up to a maximum of 40 hours per employee. Upon termination, employees are paid for unused vacation and holiday leave at their current rates of pay.

Full-time employees accumulate sick leave at a rate of 12 days (or 96 hours) per year. Part-time employees accumulate sick leave on a pro rata basis based on a full-time schedule. Unused sick leave accumulates from year to year to a maximum of 1,440 hours. No portion of unused sick leave is paid to employees upon termination. It is the Library's policy to recognize the cost of vacation and holiday pay and sick leave at the time the liability is incurred. In the governmental fund financial statements, only the matured liability for compensated absences is reported. The total liability for vacation and holiday leave is reported in the government-wide financial statements.

## **Notes to Financial Statements**

## Deferred Revenue

Deferred revenue represents property taxes levied but not due until the following year. The taxes attach as an enforceable lien at the time of levy. Property taxes deferred will be recognized as revenue during 2008.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

# 3. Stewardship, Compliance and Accountability

There were no expenditures in excess of appropriations for the year ended December 31, 2007.

# 4. Cash, Deposits and Investments

#### **Deposits**

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having business in the state of Michigan which are also members of a federal or national insurance corporation.

#### Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits might not be recovered. The Library does not have a policy for mitigating custodial credit risk related to deposits. At December 31, 2007, the Library's bank balance was \$1,666,516 of which \$1,566,516 was exposed to custodial credit risk since it was uninsured and uncollateralized.

## **Notes to Financial Statements**

#### **Investments**

State statutes authorize the Library to invest in obligations of the United States treasury, agencies and instrumentalities, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services, bankers' acceptances of U.S. banks, United States government or federal agency obligation repurchase agreements and mutual funds composed of the types of investment vehicles previously named. The Employees' Retirement Plan (Plan) is also authorized to invest in corporate stocks and bonds and certain other investments as allowed by state law.

At December 31, 2007, the Library had the following investments:

	_	Investment Maturity				
Investment Type	Fair Value	Less Than 1 Year		1-5 Years	6-10 Years	More Than 10 Years
D.L.						
Debt securities	<b>.</b>				<b>.</b>	
U.S. treasuries	\$ 1,265,901	\$ -	\$	533,615	\$ 487,762	\$ 244,524
U.S. treasury strips	1,208,247	-		60,981	798,044	349,222
U.S. agencies	219,688	-		157,453	52,166	10,069
Corporate obligations	2,095,909	35,702		1,060,715	338,678	660,814
Foreign obligations	110,309	_		43,567	60,780	5,962
Money market mutual funds	1,803,889	1,803,889				
	6 702 042	¢1 920 501	¢	1 056 221	¢1 727 420	¢ 1 270 501
	0,703,943	\$1,839,591	Э	1,856,331	\$1,737,430	\$1,270,591
Other investments						
External investment pool	3,712,723					
Equity securities	2,261,021					
Domestic equity mutual funds	16,479,145					
Foreign equity mutual funds	3,161,640					
<b>Total Investments</b>	\$ 32,318,472					

The Library participates in the Kent County investment pool. The Treasurer of Kent County manages the Pool, which is not subject to regulatory oversight, is not registered with the SEC and does not issue separate financial statements. The fair value of the Library's position in the pool is the same as the value of the pool shares.

## **Notes to Financial Statements**

#### Interest Rate Risk

The Library does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Plan minimizes interest rate risk by structuring its fixed income portfolio to have an average duration of no more than 120% of the duration of the benchmark.

#### Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library and the Plan will not be able to recover the value of its investments that are in the possession of an outside party. The Library and the Plan minimize custodial credit risk by limiting investments to those permitted by Public Act 314 of 1965 and by only doing business with investment managers that agree to comply with all relevant laws and regulations, the Plan's investment policy and the Plan's objectives.

At December 31, 2007, \$4,900,054 of the Plan's investments were uninsured, not registered in the Plan's name and held by the counterparty. The Library had no amounts subject to custodial credit risk.

#### Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The Library does not have an investment policy to mitigate credit risk. The Plan's fixed income portfolio invests in both investment grade bonds and high yield bonds but the overall credit rating is not to be below an "A" rating. The plan's policy further states that commercial paper shall not be rated less than A1/P1 unless held in a diversified short-term commingled fund. At December 31, 2007 the Library and Plan had the following credit ratings:

Debt Investment	Fair Value	AAA	AA	A	BBB	Unrated
II C annaire	¢ 210,699	¢ 210,600	¢	¢.	¢	¢
U.S. agencies	\$ 219,688			7	-	\$ -
Corporate obligations	2,095,909	622,584	377,346	584,706	463,537	47,736
Foreign obligations	110,309	-	-	34,944	75,365	-
Money market mutual funds	1,803,889	1,803,889	-	-	-	-
External investment pool	3,712,723	-	-	-	-	3,712,723
						_
<b>Totals by Rating</b>	\$7,942,518	\$ 2,646,161	\$377,346	\$ 619,650	\$ 538,902	\$ 3,760,459

## **Notes to Financial Statements**

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's and the Plan's investment in a single issuer. The Library does not have an investment policy that limits the amount that may be invested in any one issuer. The Plan's investment policy provides that no single company's securities shall represent more than 5% at cost of the market value of the portfolio, with the exception of U.S. treasuries and agencies.

At December 31, 2007 the Library and the Plan had no investment in a single issuer that exceeded 5% of total investments.

## Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. Neither the Library nor the Plan has a policy to mitigate foreign currency risk. The Plan's exposure to foreign currency risk is as follows:

Investment	Fair Value
Foreign equity mutual funds	\$ 3,161,640

#### 5. Interfund Transfers

Interfund transfers during the current fiscal year were as follows:

	Interfund	Interfund
December 31, 2007	Transfers In	Transfers Out
General fund Capital fund	\$ - 368,423	\$ 368,423
	\$ 368,423	\$ 368,423

The transfers from the General Fund to the Capital Fund were Board designated funds that were used for Library facility improvements.

# **Notes to Financial Statements**

# 6. Capital Assets

The following table summarizes, by major class of asset, the capital asset activity for the year ended December 31, 2007:

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
				_
Capital assets, not being depreciated				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Capital assets, being depreciated	2 100 000			2 100 000
Building	2,108,900	-	-	2,108,900
Building improvements	142,767	367,509	-	510,276
Furniture and equipment	3,823,656	524,399	21,449	4,326,606
Collections	10,187,603	2,022,685	970,781	11,239,507
Vehicles	18,000	-	-	18,000
Total capital assets being depreciated	16,280,926	2,914,593	992,230	18,203,289
Less accumulated depreciation for:				
Building	548,314	84,356		632,670
$\mathcal{E}$		,	-	,
Building improvements	11,498	21,768	20.526	33,266
Furniture and equipment	2,285,115	430,308	20,526	2,694,897
Collections	6,954,766	1,137,466	763,608	7,328,624
Vehicles	18,000	-	-	18,000
Total accumulated depreciation	9,817,693	1,673,898	784,134	10,707,457
Total accumulated depreciation	9,817,093	1,073,898	704,134	10,707,437
Total capital assets being				
depreciated, net	6,463,233	1,240,695	208,096	7,495,832
Capital Assets, net	\$ 6,903,233	\$ 1,240,695	\$ 208,096	\$ 7,935,832

## **Notes to Financial Statements**

Depreciation expense was charged to governmental functions as follows:

Collections Facility, office equipment and furniture Technology	\$ 1,137,466 311,991 224,441
<b>Total Depreciation Expense</b>	\$ 1,673,898

## 7. Line of Credit

The Library has a line of credit agreement which permits borrowings up to \$10,000 and bears no interest. At December 31, 2007, there was no balance outstanding under the line of credit agreement.

# 8. Long-Term Obligations

The following is a summary of changes in long-term obligations:

					Due
	Balance			Balance	Within
	January 1,			December 31,	One
	2007	Additions	Deletions	2007	Year
Capital leases	\$ 735,139 \$	300,144	\$ 216,325	\$ 818,958	\$230,486
Compensated absences	206,313	672,317	647,081	231,549	5,000
	\$ 941,452 \$	972,461	\$ 863,406	\$1,050,507	\$235,486

## Capital Leases

The Library is obligated under certain leases for office equipment accounted for as capital leases. The leased assets and related obligations are accounted for in the government-wide financial statements. Assets under capital leases totaled \$1,032,190 at December 31, 2007.

## **Notes to Financial Statements**

## **Operating Leases**

The Library leases certain office equipment from unaffiliated third parties under operating leases. Total rental expense under all operating leases was \$31,539 for the year ended December 31, 2007.

The following is a schedule of future minimum lease payments under non-cancelable operating leases and capital leases, together with the net present value of the minimum lease payments as of December 31, 2007:

		Non-		
		C	Cancelable	
	Capital	Operating		
Year ending December 31,	Leases		Leases	
2008	\$ 276,517	\$	47,616	
2009	276,517		45,404	
2010	253,449		40,980	
2011	90,626		20,490	
2012	16,256			
Total minimum lease payments	913,365			
Less amount representing interest	94,407			
Capital Lease Obligations	\$ 818,958			

# 9. Contingencies

The Library has received several grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grants. The Library believes such disallowances, if any, will be immaterial.

### **Notes to Financial Statements**

### 10. Retirement Plan

## Plan Description

The Kent District Library Employees' Retirement Plan (Plan) is a single-employer defined benefit pension plan covering substantially all employees of the Library. The Plan was established and may be amended by the Board of Trustees and is administered by the Plan Pension Board. The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by contacting the Library.

### Significant Accounting Policies

#### Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan.

#### Method Used to Value Investments

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

## **Funding Policy**

The contribution requirements of Plan members are established and may be amended through union agreements. Active plan members are required to contribute 4.5% of their salary to the Plan after meeting eligibility requirements. The Library is required to contribute at actuarially determined rates expressed as a percentage of covered payroll. The Library's contribution rate was 11.37% of annual covered payroll in 2007. Administrative costs of the Plan are financed through investment earnings.

## **Notes to Financial Statements**

# Annual Pension Cost and Net Pension Obligation

The Library's annual pension cost and annual required contribution was \$852,674 in 2007. The Plan had no net pension benefit obligation at December 31, 2007.

The annual required contribution for the year ended December 31, 2007 was determined as part of the January 1, 2006 actuarial valuation using the entry-age normal cost method. The actuarial assumptions included: (a) a rate of return on investments of 7% per year compounded annually; (b) projected salary increases ranging from 5.5% to 12.1% per year, compounded annually, attributable to inflation, seniority/merit and other causes; and (c) the assumption that benefits will increase 1% per year beginning three years after retirement.

### Three-Year Trend Information

Year ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	¢ 721 571	1000/	¢.
2005	\$ 731,571	100%	\$ -
2006	764,681	100	-
2007	852,674	100	-

# Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b)-(a)	Funded Ratio (a)/(b)	Active Member Covered Payroll (c)	Funding Excess as a Percentage of Active Member Covered Payroll ((b-a)/c)
Dute	(a)	(0)	( <i>b</i> )-( <i>a</i> )	(a)/(b)	(c)	((0-a)/c)
January 1, 2006	\$22,934	\$ 21,371	\$ (1,563)	107.3%	\$7,164	(21.8)%
January 1, 2007	25,947	23,122	(2,825)	112.2	7,073	(39.9)
January 1, 2008	28,716	25,299	(3,417)	113.5	7,531	(45.4)

### **Notes to Financial Statements**

The information presented in the schedule of funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date January 1, 2008

Actuarial cost method Entry-age normal

Amortization method Level percent over 10 years

Asset valuation method Four-year smoothed market

Actuarial assumptions:

Investment rate of return 7%

Projected salary increases attributable to inflation, seniority/merit and

other causes 5.5% to 12.1%

Cost of living adjustments 1% per year beginning three years

after retirement

# 11. Other Postemployment Benefits

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Statement No. 45 establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expenditures and related assets/liabilities as well as note disclosures in the reports of governmental employers. The Library currently provides postretirement healthcare benefits and reports them on the pay-as-you-go method. However, Statement No. 45 will require the Library to report OPEB on the accrual basis starting in 2008.

In addition to the pension benefits described in Note 10, the Library provides postretirement health care benefits, in accordance with the KDL/UAW labor contract, to all employees who retire from the Library under the Library's retirement plan and elect to receive benefits. For retirees prior to July 1, 2001, the Library pays a monthly amount of \$3 per year of continuous service, not to exceed 30 years, less \$15 towards medical and hospitalization premiums until age 65. For employees who retire after July 1, 2001 and through December 31, 2009, the Library pays a monthly amount of \$6 per year of service, not to exceed 30 years. Library contributions are conditioned upon the retiree

## **Notes to Financial Statements**

participating in the same health care program that is provided to members of the Library's bargaining unit. After December 31, 2009 if a retiree has not elected this benefit, this benefit will no longer be available to retirees. At December 31, 2007, 17 retirees were eligible to receive postretirement health care benefits. Total expenditures of \$4,254 were recognized for three retirees who elected to receive postretirement health care benefits in 2007.

The Library had an actuarial valuation prepared as of December 31, 2007 which determined that the unfunded actuarial accrued liability at December 31, 2007 was approximately \$84,000 and the annual required contribution (ARC) for 2008 will be \$19,280. The Library anticipates fully funding the ARC in 2008.

# Required Supplementary Information

# General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended December 31, 2007	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property taxes	\$13,392,107	\$13,456,561	\$13,455,843	\$ (718)
Intergovernmental	929,131	1,090,432	1,090,432	ψ (710)
Fees and fines	667,335	702,835	731,372	28,537
Interest revenue	347,971	380,871	419,336	38,465
Contributions	5,000	2,300	4,544	2,244
Other	40,860	21,277	23,021	1,744
<b>Total Revenues</b>	15,382,404	15,654,276	15,724,548	70,272
Expenditures				
Operations:				
Personnel	10,150,114	10,260,609	10,198,060	62,549
Supplies	392,501	396,926	387,183	9,743
Contractual	999,521	991,569	960,394	31,175
Other operating	850,713	774,710	757,703	17,007
Programming	136,746	137,246	125,187	12,059
Collections	2,306,949	2,358,449	2,304,351	54,098
Technology	513,520	607,908	507,525	100,383
Facility, office equipment	67,000	106.050	00.222	7.626
and furniture	65,800	106,859	99,233	7,626
<b>Total Expenditures</b>	15,415,864	15,634,276	15,339,636	294,640
Excess (deficiency) of revenues over expenditures	(33,460)	20,000	384,912	364,912
Other Financing Uses Transfers to other fund		-	(368,423)	(368,423)
Change in fund balance	(33,460)	20,000	16,489	(3,511)
Fund Balance, beginning of year	3,053,005	3,053,005	3,053,005	
Fund Balance, end of year	\$ 3,019,545	\$ 3,073,005	\$ 3,069,494	\$ (3,511)

# Other Supplementary Information

# Capital Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended December 31, 2007	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenue	¢	¢ 7,000	¢ 7.612	¢ (297)
Interest revenue	\$ -	\$ 7,900	\$ 7,613	\$ (287)
<b>Expenditures</b> Facility, office equipment and furniture	339,873	374,194	374,194	
Deficiency of revenues over expenditures	(339,873)	(366,294)	(366,581)	(287)
Other Financing Source Transfer from other fund	368,423	368,423	368,423	
Change in fund balance	28,550	2,129	1,842	(287)
Fund Balance, beginning of year	99,020	99,020	99,020	
Fund Balance, end of year	\$ 127,570	\$ 101,149	\$ 100,862	\$ (287)

99 Monroe Avenue N.W., Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

July 8, 2008

Members of the Board of Trustees Kent District Library Comstock Park, Michigan

#### Dear Members:

During the course of our audit of Kent District Library's (Library) financial statements for the year ended December 31, 2007, we observed the Library's significant accounting policies and procedures and certain business, financial, and administrative practices. In planning and performing our audit of the financial statements of Kent District Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Kent District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

# **Determination of Capital Versus Operating Leases**

During the year being audited two leases were entered into that were determined by management to be capital leases and they were added to the capital asset listing. Through auditing procedures it was discovered that these leases were both operating and capital leases. As a result capital assets, accumulated depreciation and capital lease payable were materially overstated.

#### Recommendation

We recommend that the Library implement procedures to ensure that all leases are properly classified as either operating or capital. The finance director should review all leases for proper classification.

We also have the following suggestions for improving existing internal controls. We did not consider these matters to be significant deficiencies or material weaknesses. Furthermore, they did not affect the fair presentation of the financial statements.

#### Cash Controls

The Library has written branch cash procedures which state that cash is to be kept in a locked safe during the day with the key to the safe being kept in a key safe with access to the key safe being limited to appropriate employees. During our branch visits to two locations, the safe was left open with access to the keys available to all circulation employees. Unrestricted access to the safe and keys increases the risk of loss due to theft.

#### Recommendation

Ensure that established policies are being adhered to by all the branches possibly by holding branch managers accountable.

# **Branch Controls Over Payroll Checks**

During our branch interview procedures it was noted at two of the locations that employee checks are left in an unlocked safe for employees to pick up at their convenience. Although the policy states that the safe is to be locked and limited to certain individuals, the policy is not being followed.

#### Recommendation

Ensure that established policies are being adhered to by all the branches possibly by holding branch managers accountable.

\* \* \* \* \*

This communication is intended solely for the information and use of management, the Members of the Board of Trustees and, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Library's financial statements.

Very truly yours,

BDD Seidman, LLP